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SUBJECT: NICARAGUA: REAL ESTATE: DEMAND FOR HOUSING DECLINES IN 2008

SUMMARY

1. (SBU) Housing developers and real estate brokers estimate that demand for residential housing not related to the tourism sector fell an estimated 35-50% in 2008, as compared to 2007. The primary reason behind the fall in demand for residential housing has been the tightening of local credit markets in response to the global economic crisis. Some developers believe that the Government of Nicaragua's (GON) push to build new low-income homes might provide a small boost to the residential housing market, but others remain pessimistic about their prospects in 2009. Despite the decline in 2008 and poor outlook for 2009, most industry representatives remain cautiously optimistic about Nicaragua's long-term growth potential. End Summary.

RESIDENTIAL HOUSING DEMAND DECLINES IN 2008

2. (SBU) In January 2009, the Nicaraguan Chamber of Housing Developers (CADUR) reported that, in 2008, developers built 3,000 new homes, half as many as in 2007. Alfonso Silva, President of CADUR, explained to us that 90% of the homes built in 2008 were initiated only after builders received full payment. Kirk Hankla, Director of Coldwell Banker Nicaragua, added that his company's sales for new and used homes fell by 66% in 2008, as compared to 2007. He estimated that new and used home sales throughout Nicaragua fell 35-50% in 2008, as compared to 2007.

PROBLEMS WITH APPRAISALS

3. (SBU) A key challenge in determining the value of Nicaragua's real estate sector is appraising property. Only 30-40% of real estate in Nicaragua is registered with municipalities, including cities such as Managua, Granada, and Leon. In addition, most Nicaraguans do not pay property taxes, and the government does not maintain accurate cadastral records and individual property tax files.

LACK OF CREDIT LEADS TO DECLINE

4. (SBU) The primary reason behind the fall in demand for residential housing has been the tightening of local credit markets in response to the global economic crisis. Jose de Jesus Rojas, General Manager of the Central Bank of Nicaragua, explains that banks and other financial institutions have tightened their lending requirements and raised interest rates for customers seeking home loans. For instance, local banks are currently requesting a 30% down payment and have raised interest rates to 14% in the latter half of 2008 and in 2009 compared to an average of 8.5% in 2007 for a 30-year mortgage. Ernie Valle, President of VCS Construction Company, noted that these terms disqualify many Nicaraguans from

getting a loan. Valle estimated that homes in Managua sell in the range of \$7,000-\$20,000 for low-income housing, \$25,000-\$75,000 for medium-income housing, and \$250,000-\$500,000 for high-income housing. Separately, Hankla added that the global economic crisis has caused local buyers to live with their families or in apartments, and foreign investors no longer have the money to buy new real estate.

NEW LOW INCOME HOUSING TO THE RESCUE?

15. (SBU) Some developers believe that the GON's recent push to build low income housing will provide more opportunities for construction companies. Nicaragua has a housing shortage of 750,000 homes, and an estimated 150,000 homes are in need of repair. The National Assembly recently passed a new housing law which focuses on low income housing. The law authorizes the Social Fund for Housing (FOSOVI) to finance the construction of homes selling for less than \$20,000. The law also requires employers in the public and private sectors to provide their employees an advance of no more than 20% of their retirement or termination package to use as a down payment if beneficiaries decide to obtain a bank loan to build their own house.

16. (SBU) As a result of this law, the board of directors of the state-owned National Social Security Institute (INSS) loaned \$190,000 in March to a local construction company, Tecnosa, to build 24 new low-income houses for the "Pueblo Presidente" housing development in Managua, and it discussed providing another loan of \$1.09 million to the firm to build an additional 136 new houses for the project. Tecnosa is closely affiliated with Francisco Lopez, President of Petroleos de Nicaragua (Petronic), the state-owned oil company, Vice-President of Bolivarian Alternative for Latin America, Nicaragua S.A. (Albanisa), and Treasurer of the Sandinista National Liberation Front party. [Note: Industry representatives believe that FSLN partisans will be the beneficiaries of this program. End Note. On April 4, the Netherlands' Sister Cities Association and the Center for the Promotion of Local Development and the Eradication of Poverty (Ceprodel) signed an agreement with Nicaraguan Institute of Rural and Urban Housing (INVUR) to provide six million euros (\$7,830,000) to build low income housing throughout Nicaragua.

GLOOMY PROSPECTS FOR 2009...

17. (SBU) A number of developers remain pessimistic about the short-term outlook for the residential housing market. Raul Calvet, president of a tourism and real estate services firm, argues that the new housing law would not revive demand for residential housing because the legislation's focus is on social welfare rather than incentives for construction. He predicts that Nicaragua's housing market could decline another 20-25% in 2009 if the global economy does not improve. Turula Murdock, Vice-President and Regional Director of First American Title Insurance in Latin America and the Caribbean, agrees that demand for housing would likely decline in 2009. She added that investor confidence is low and people are worried that they will be unable to pay their mortgages if they lose their jobs.

...BUT CAUTIOUS OPTIMISM FOR THE LONG TERM

18. (SBU) Despite the decline in 2008 and poor outlook for 2009, industry representatives remain cautiously optimistic about the long term. Their hope is that when the global economy recovers, Nicaragua's housing market should follow. Right now, that feels a long way away.

CALLAHAN